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6 CHAIRPERSON JAMES:

7 Sam.

8 MR. DePHILLIPPO: Thank you. Good morning

9 Commissioner James and members of the National Gambling

10 Impact Study Commission, Commission Staff and

11 Distinguished Guests, good morning.

12 I'm Sam DePhillippo and I'm the Executive

13 Director of the Massachusetts State Lottery Commission,

14 a position that I have held since 1995. Prior to

15 accepting my current position, I was a senior executive

16 in retailing for many years.

17 Most importantly, since I'm going to be the

18 first speaker here, or actually, the second speaker

19 that you're hearing from the state of Massachusetts, I

20 want you to understand that what you'll be getting from

21 me is a Philadelphia accent. This is not how they talk

22 in Boston, and the occasional stuttering also comes

23 from Philadelphia.

1 Before I do begin, I must say that it is
2 with great pride that we welcome you here to our
3 wonderful state and our capital city. Being in Boston
4 on St. Patrick's Day is a very special experience, even
5 if you are sitting in this conference room at the
6 Westin Hotel, and I respectfully request that you
7 indulge me for a minute to make some personal remarks.

8 As you know, the lottery industry is very
9 small here in North America and today it's an industry
10 whose members are in a state of mourning. Otho Brown,
11 the President of the Connecticut Lottery, was a
12 business colleague and a personal friend of mine. He
13 was a competent and an able executive and a caring and
14 devoted father, and he died trying to save his
15 employees. On behalf of myself and the whole
16 Massachusetts State Lottery, I want to express my
17 condolences to Otho's family, to his friends and to his
18 colleagues.

19 And although we didn't, I didn't personally
20 know the other three people that passed away as well
21 that day, I've heard nothing but great things about
22 them and they were known as good, dedicated employees.
23 These senseless deaths creates a void. And I want
24 everyone to know that the Massachusetts Lottery has

1 offered to assist the Connecticut Lottery in any way we
2 possibly can during the next several months, and my hat
3 is off to the Governor of Connecticut for the wonderful
4 response he has made there. Thank you for indulging me
5 in that.

6 For more than 30 years, lottery
7 organizations in North America have provided revenue
8 for much needed programs that otherwise would be funded
9 by increased taxes. Across the nation in the 37 lottery
10 jurisdictions and the District of Columbia, all
11 taxpayers, whether they play the lottery or not, reap
12 the benefits of their lottery.

13 This is through the specific programs and
14 services provided by lottery dollars. One hundred
15 percent of lottery revenues are used to provide
16 financial assistance to support education in 12 states,
17 among them, California, Florida and New York. In six
18 other states, a portion of the revenue goes to help
19 education. Minnesota and Colorado contribute their
20 revenues to the environment and natural resource funds.
21 In Indiana, the money goes to the police and fire
22 pensions and the teachers retirement and capital
23 projects, while Wisconsin uses their lottery revenue to
24 provide property tax relief. In Pennsylvania, the

1 funds are distributed exclusively to support much
2 needed programs and services for their senior citizens.

3 Thirteen other states direct their lottery
4 funds into the general state funds allowing for great
5 flexibility in the programs which lottery revenues
6 support. And, of course, we are all aware of the
7 extremely successful project HOPE program that Rebecca
8 Paul spoke about in her state of Georgia.

9 In 1996 alone, U.S. lottery organizations
10 contributed more than \$2.6 billion to state general
11 revenue funds and more than \$6.8 billion to education.
12 Since the inception of the first state lottery in 1964,
13 lottery organizations have generated more than \$115
14 billion in net revenues, contributed more than \$57
15 billion to support education and more than \$23 billion
16 to general revenue funds. In Pennsylvania alone, \$10
17 billion has been contributed to support their senior
18 citizens.

19 In addition, in the United States, lottery
20 organizations have paid more than \$2.2 billion in
21 commissions to retailers last year and have paid \$20
22 billion since the start of the lottery. Today, more
23 than 240,000 retailers sell lottery products throughout
24 North America, many of whom would not be in business

1 today if it were not for the lottery, for many of these
2 retailers, the most noted would be the small
3 independent merchants, lottery products provide the
4 competitive edge needed in today's business world.

5 Gross lottery sales last year totalled
6 slightly more than \$34 billion of which \$18 billion
7 were paid out in prizes. Net revenues for the states
8 from their lotteries approached \$12 billion. Now,
9 these figures may seem large, but we must keep in mind
10 that they represent less than eight percent of the more
11 than \$586 billion wagered in North America in 1997.
12 Most importantly, no other form of gaming has a higher
13 rate of return for government than lotteries. After
14 subtracting prizes, more than 70 percent of consumer
15 net spending on state lottery products was returned to
16 the states in fiscal year 1997.

17 In Massachusetts we are extremely proud of
18 our lottery. It enjoys enormous public support and
19 participation. Our latest figures show that two-
20 thirds of the adult population of Massachusetts plays
21 the lottery on a regular basis. Our surveys show that
22 the average Massachusetts lottery player, actually
23 reflects, even is a little bit better than the general
24 characteristics of the state's population.

1 Massachusetts is a state blessed with low unemployment,
2 high education rates and above average income. The
3 typical Massachusetts lottery customer is between 25
4 and 54 years old, has an annual income of over \$35,000
5 and the majority of them possess at least some college
6 education.

7 Our lottery is often hailed as one of the
8 most successful lotteries in the United States. In our
9 view, our real success is the record amounts of money
10 going back to the people who buy our tickets, the
11 people who sell our tickets and the city and towns
12 where they live. We're unique in a number of very
13 important ways. First, we have the highest per capita
14 sales in the nation. Secondly, we pay out the highest
15 percentage of prizes in the country. Third, we provide
16 our retailers with the highest average annual dollar
17 commissions and, fourth, we make available about 75
18 percent of what the players lose back to their cities
19 and towns.

20 Most of the net revenue from our lottery is
21 distributed to cities and towns which are free to spend
22 their lottery aid on police, fire, education, libraries
23 and programs for seniors and the other local government
24 programs. The remainder of our net revenue is given to

1 the state legislature to support local arts programs,
2 public health programs for problem gamblers and state
3 projects that benefit cities and towns.

4 That is the nature of the social compact
5 that exists between the Massachusetts lottery and our
6 citizens, in exchange for accepting legalized gambling,
7 our cities and towns get to enjoy the fruits of that
8 wagering. Our players win more in prizes than any
9 other lottery in the country. The Massachusetts
10 lottery pays approximately 70 percent of gross sales
11 back to our players. This simply means our customers
12 have an opportunity to win more often and the games are
13 more fun and exciting, thereby providing a wider
14 appeal.

15 Now, let's examine what really happens, I
16 have a prop here, to the dollar spent by our customers.
17 These three dollar bills represent approximately the \$3
18 billion that we do in sales. Two of the dollars, or \$2
19 billion, goes right back to the players in the form of
20 prizes. The remaining dollar, which I have up there on
21 the chart, \$.07 goes to pay for the administrative
22 cost, \$.19 of the remaining dollar goes as commission
23 to our retailers and \$.74 is available to go back to

1 our cities and towns. We think that's a pretty good
2 return.

3 This illustrates the importance of
4 distinguishing between gross lottery sales and net
5 consumer spending, also known as the drop. Many other
6 gaming venues like to compare our gross sales to their
7 net drop. As your Commission examines the impact of
8 lotteries, casinos and race tracks, et cetera, on our
9 citizens, we should be comparing apples to apples.
10 Massachusetts is a \$1 billion operation not a \$3.2
11 billion operation in terms of net spending. Because of
12 the high prize pay out in Massachusetts, our per capita
13 sales of \$525 results in a per capita spending or a
14 drop of actually \$160, and after accounting for
15 administrative cost and retailer commissions, \$120 per
16 person is made available for distribution to our cities
17 and towns.

18 Now, we've done a study of casino gaming
19 and video lottery machines by an independent outside
20 firm and it was found that no other form of gaming
21 could provide anywhere near the return for the state
22 from a gaming dollar than our lottery can provide.

23 The next group of winners is the small
24 business owners who sell our lottery products. We paid

1 more than \$187 million in commissions last year and the
2 average income per retail location in Massachusetts is
3 \$23,000. That's average. That's per agent. This
4 average commission is a significant portion of the
5 annual income of hundreds, indeed thousands, of mom and
6 pop independent convenience stores, newsstands, package
7 stores and the like. In many cases, these commissions
8 are the difference between staying in business or not.

9 Not too long ago, when I visited my mom in
10 Philadelphia, she lives in a neighborhood comprised of
11 row homes and a high percentage of elderly residents,
12 when I went out to buy a gallon of milk I had to drive
13 over a mile and a half to the nearest chain convenient
14 store to get her milk. In the same neighborhood here
15 in Boston or in our state, I would have encountered
16 many independent convenient stores within that same
17 mile and a half. I am convinced that many of those
18 stores, these many small family businesses, are able to
19 survive because of the Massachusetts lottery.

20 Our third group of winners is the taxpayers
21 in the state's cities and towns. The net revenues of
22 the Massachusetts lottery are distributed principally
23 to the general funds of the state's municipalities.
24 This direct aid is allocated according to a formula

1 based on the city's population and property values.
2 Municipalities with more residents and lower property
3 values receive proportionally more assistance.

4 If you hold up that two minute sign, I'm
5 going to really stutter. Okay. Just give me five more
6 minutes if I may because I really want to talk, just
7 finish an important point, so, let me just try to fly
8 through this.

9 CHAIRPERSON JAMES: I would remind you that
10 we do have your written testimony, so it's not that the
11 Commissioners don't have that.

12 MR. DePHILLIPPO: Terrific.

13 CHAIRPERSON JAMES: So if you could
14 summarize it.

15 MR. DePHILLIPPO: Terrific. Let me just
16 tell you that lottery aid is used for some very, very
17 real things from fire trucks to police to libraries,
18 and in my testimony I have listed many of those
19 examples.

20 I want you to know that a passion of this
21 lottery is efficiency. We spend just 2.2 percent of
22 gross sales on administration, the lowest percentage of
23 any state lottery in the country. We spent \$69 million
24 last year, one million dollars less than we did seven

1 years ago when we were doing half the sales we're doing
2 now. And we take these operational responsibilities
3 seriously because each dollar we save in administrative
4 expenses is an additional dollar for our beneficiaries.

5 Now, we also take a great deal of pride in
6 our social responsibility. One of the things we are
7 most proud of is that when anyone wins a prize over
8 \$599, they come to lottery headquarters, we put them
9 through two checks. One, to see if they owe any back
10 child support and we subtract the amount of their
11 winnings from that. And second, we notify the welfare
12 department and if they've won over a certain amount,
13 they are taken off of the welfare rolls.

14 When Keno was debated five years ago,
15 Treasurer Joe Malone, who is the Chairman of the
16 Commission, expressed concern about its impact on our
17 communities. Legislation was passed with no
18 restrictions on how many stores could sell Keno, what
19 type of stores could sell Keno. We have initiated,
20 even though we really don't have the law on our side, a
21 cap on the amount of Keno establishments there can be,
22 what type of stores they can go into. And we only
23 allow them now in age controlled stores and only with
24 the prior approval of the local town.

1 We also have Dr. Howard Shaffer, he leads
2 our council, our Advisory Council on Compulsive
3 Gambling, and his passion is that and his belief is
4 that compulsive gambling starts by gambling when you're
5 a teenager, and as a result we have formed a three
6 strikes and you're out underage gambling program.
7 Basically what happens is our superior staff, during
8 the school vacation, will hire teenagers to go into the
9 stores to try to buy lottery products.

10 If an agent is caught selling three times
11 within any period of time, and we're now on our second
12 round -- the first time they get suspended for two days
13 and the second time five days, and the third time they
14 lose their license permanently. We also have these
15 posters at all of our registers and signs. We've also
16 increased the amount of money going to compulsive
17 gambling threefold, to a million dollars a year with
18 the support of the legislature. And finally, the
19 lottery this year received the state award for the fine
20 work we've done in recycling and using recycled
21 products.

22 In conclusion, I want to just say that our
23 lottery is one with tremendous public support. We're a

1 state agency and we operate under the laws of the state
2 and we're accountable to the legislature.

3 Two, is that as you listen to people speak
4 and read in the newspaper about our lottery, you must
5 also understand that Massachusetts is an incredible
6 hardball political state and everyone involved, who
7 touches the lottery seems to be running for governor,
8 except me.

9 And the third thing is that the, that this
10 is a lottery that has spent, at least since I've been
11 the director, hours and hours, the mandates to
12 mandates, visiting stores and talking to our players.

13 Thank you, very much.

14 CHAIRPERSON JAMES: Thank you.